



Treasury Inspector General for Tax Administration

CONSOLIDATION OF TAX RETURN PROCESSING SITES IS PROGRESSING EFFECTIVELY, BUT IMPROVED PROJECT MANAGEMENT IS NEEDED

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Highlights

Highlights of Report Number: 2007-40-165 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Formerly, the Internal Revenue Service (IRS) used eight Submission Processing sites to process individual income tax returns. Due to the decline in the number of paper returns and corresponding increase in electronic returns, the IRS is consolidating sites and directing taxpayers to file at the remaining sites to reduce costs and increase efficiency. The reduction in the number of sites has not adversely affected the processing of individual tax returns. However, the IRS has not adequately monitored the consolidation to measure the extent to which it is achieving its primary objective of cost savings. Improvements are needed in setting financial goals and in updating and monitoring related costs and benefits.

WHY TIGTA DID THE AUDIT

This audit was initiated because the IRS had stated that it would receive millions of dollars in cost savings as a result of the Processing site consolidation. However, the IRS had not provided recent information about its actual results from the first two closures. The audit objective was to determine whether the Processing site consolidation has been adequately planned and monitored and whether anticipated cost savings have been realized.

WHAT TIGTA FOUND

The IRS effort to transfer Processing site operations to fewer locations has been successful to date. The IRS has maintained a high level of productivity and successfully processed individual income tax returns while implementing the consolidation, with limited effect on taxpayers. It has taken steps to monitor operational aspects of and to help employees affected by the consolidation find new positions.

However, the business decision to consolidate Processing sites was based on a qualitative plan that did not include a cost-benefit analysis. Consequently, the IRS did not set financial goals for the consolidation. Without financial goals, the IRS has not had an incentive to determine how efficient its decisions have been or if it could be saving more.

As the IRS has implemented the consolidation, it has not adequately updated and monitored the resulting costs and benefits. It has used analytical tools to prepare some ad hoc reports that include cost-benefit information, but such information was still incomplete or included nonconsolidation-related benefits. The IRS has recently developed a methodology to help it address these problems and provide a consistent means of monitoring consolidation costs and benefits.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, (1) task the Project Management Office with regularly monitoring the consolidation plan and ensure key analysts receive training in cost-benefit analysis and (2) have the Project Management Office complete a cost-benefit analysis to determine if the existing plan is still optimal in terms of cost savings and operational effectiveness.

In their response to the report, IRS officials agreed with the first recommendation and partially agreed with the second recommendation. The IRS plans to make the Project Management Office responsible for monitoring the consolidation plan. Key analysts have been scheduled for training in cost-benefit analysis. However, IRS officials stated the IRS is too far into the process to make changes to the planned order of consolidation or to the three-site end-state configuration, and there was no evidence to suggest the decisions made were incorrect. Instead, the IRS plans to evaluate cost savings from the most recent and next Processing site closures and apply lessons learned to the final site closure, scheduled for 2011.

TIGTA believes additional steps could be taken to improve financial management of the consolidation project overall. Because several years remain prior to project completion, a comprehensive cost-benefit analysis would help assure this long-term, multimillion dollar project proceeds in the most efficient manner. In addition, Federal Government guidance stresses that evaluating costs and benefits should be part of the decision-making and project management processes.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740165fr.pdf>.